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Before the
Federal Communications Commission
Washington, D.C. 20554

Federal Communications Commission
Office of Secretary

In the Matter of

Access Charge Reform

Transport Rate Structure
and Pricing

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CC Docket No. 96-262

CC Docket No. 91-213

REPLY COMMENTS OF THE SBC COMPANIES

Pursuant to Section 1.429 of the rules of the Federal Communications Commission (Commission), and the Public Notice released February 5, 1998, Southwestern Bell Telephone Company, Pacific Bell, and Nevada Bell (collectively, the SBC Companies) hereby reply to the oppositions¹ filed against their petition for reconsideration (PFR) of that portion of the Third Report and Order² which reallocated general support facilities (GSF) costs of price cap LECs from regulated access services to detariffed billing and collection services.

I. REPLY

A. A Piecemeal Approach To Part 69 Changes Should Not Be Used.

MCI argues that other Part 69 rules do not compensate for the alleged under-allocation of GSF costs to the billing and collection category, contrary to the SBC Companies' Petition.³ AT&T argues that these other allocations are irrelevant.⁴

¹ Oppositions were filed by AT&T Corp. (AT&T) and MCI Telecommunications Corp. (MCI).

² Access Charge Reform, CC Docket No. 96-262, and Transport Rate Structure and Pricing, CC Docket No. 91-213, Third Report and Order, (FCC 97-401) (released November 26, 1997) (GSF Order).

³ MCI at p. 3.

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The fact that “Other Customer Services Expense” is a minor amount of dollars that are over-allocated to the Billing and Collection category is not the SBC Companies’ main point. We pointed this out as an example of the Commission taking a piecemeal approach that penalized local exchange carriers (LECs) such as the SBC Companies. Obviously, MCI does not disagree with this piecemeal approach as it stood to benefit, through access charge reductions, from shifts in GSF related costs to the billing and collection category.

B. Even MCI Must Agree That An Adequate Opportunity to Recover These Costs Should Be Allowed.

The PFR notes that the reallocation of GSF costs and the timing of the implementation of that reallocation did not allow an adequate opportunity to recover those costs. MCI claims that the fact that the costs reallocated to the billing and collections category cannot be recovered is of no consequence to the decision of the Commission to reallocate those costs.⁵

On the contrary, the SBC Companies’ point is no different than the arguments for cost recovery currently being made by MCI in its “Emergency Petition for Prescription.” In that petition, MCI complains about the reallocation of common line cost recovery through the new presubscribed interexchange carrier charge (PICC) to interexchange carriers (IXCs) because MCI must “make certain that [it is] collecting these fees in the most accurate way from [its] customer base.”⁶ MCI also claims that it may fail to recover these costs and that the “Commission should take immediate action to ensure that (1) IXCs have the opportunity to recover their costs

⁴ AT&T at p. 4.

⁵ MCI at p. 4.

⁶ MCI Emergency Petition for Prescription, CC Docket No. 97-250, filed February 24, 1998, (MCI Petition) at p. 15.

efficiently....”⁷

All carriers must have an opportunity to recover their costs. MCI appears to support this principle in its Petition. The GSF reallocation, however, gives the SBC Companies no reasonable opportunity to recover the GSF costs.⁸

C. The SBC Companies’ Cost Comparison Shows That the GSF Reallocation Was Unwarranted.

MCI claims the cost figures cited by the SBC Companies are “misleading.” MCI claims that the SBC Companies misled the Commission by attributing the entire differential between its billing and collection revenues and its “after GSF rule change” billing and collection costs to the modified GSF allocator adopted in the Order.⁹

The SBC Companies did not mislead the Commission. MCI is correct in that the applicable costs, provided in the SBC Companies’ PFR, for comparison to the billing and collection revenue, included the impact of the other billing and collection (OB&C) rule change.¹⁰ This change was effective April 1, 1997. Consequently it was necessary to include the OB&C related costs in the SBC Companies’ billing and collection amounts. The cost shown in the PFR appropriately reflected 1996 historical costs adjusted for the allocation of the OB&C rule change. This was the starting point for evaluation of the GSF rule change that became effective January 1, 1998. The SBC Companies did not attribute the entire differential between billing and collection costs and revenues and “after GSF rule change” billing and collection costs to the

⁷ MCI Petition at p. 13.

⁸ On the other hand, for the reasons that will be described in the SBC Companies’ forthcoming comments on the MCI Petition, MCI already has an opportunity to recover its costs, and no action is necessary on the requests made by MCI in that proceeding.

⁹ MCI at p.5.

modified GSF allocator. The SBC Companies clearly stated that the annual revenue impact attributable to GSF was a \$45 million reduction, which excluded any impacts already associated with the OB&C rule change.¹¹

If the SBC Companies had included the impact of OB&C, the total difference between billing and collection revenues and costs would be approximately \$94M, an amount significantly larger than the \$45M impact provided in the SBC Companies' PFR. To help clarify the numbers at issue, the table below provides the 1996 B&C revenues, 1996 ARMIS B&C costs, 1996 ARMIS B&C costs adjusted for the OB&C rule change, and the cost impact of the GSF rule change.

¹⁰ MCI at pp. 4-5.

¹¹ PFR at p. 2.

Table
Summary of 1996 Billing and Collection Revenues and Costs

Company	1996 B&C Revenue	1996 B&C Cost	1996 B&C Cost Adj. For OB&C	1996 Cost After GSF Rule Change	Impact of GSF Change
SWBT	\$54.3M	\$53.4M	\$67.2M	\$85.9M	\$18.7M
Pacific Bell	\$40.0M	\$39.9M	\$74.7M	\$100.7M	\$26.0M
Nevada Bell	\$1.8M	\$1.3M	\$1.4M	\$1.7M	\$0.3M
Total SBC	\$96.1M	\$94.6M	\$143.3M	\$188.3M	\$45.0M

Clearly, for the SBC Companies, the overall allocation of costs to the billing and collection category was reasonable. For the SBC Companies overall, prior to the GSF rule change, there was less than a 2 percent difference between billing and collection revenues and costs. What MCI's opposition clarifies is that the Commission, in considering the GSF change, relied upon the wrong costs in reaching its conclusion that the allocation of GSF costs is a significant problem. The Commission asserted that the billing and collection revenues were about \$536 million and the operating expenses were about \$439 million. The Commission relied on 1996 ARMIS data and failed to include the impact of its previously adopted rule change for other billing and collection costs. If other companies' other billing and collection impacts were similar to those of the SBC Companies, the applicable costs for the RBOCs and GTE would increase approximately 51.5% to about \$663 million. Thus, after the OB&C change, billing and collection costs for the industry, similar to the SBC Companies, were likely greater than the related revenues. Consequently, the Commission erred in the estimation of the differential between billing and collection costs and revenues that existed prior to the GSF rule change. As

asserted in the PFR, the allocation of GSF to the billing and collection category was not a significant problem and there was no basis for a piecemeal fix to the allocation of GSF costs.

D. The Joint Cost Order Is Not Applicable To This Issue.

AT&T asserts, citing the Joint Cost Order, that there must be full separation of billing and collection costs from “regulated access,” since the Commission’s objective is to ensure “full cost separation between regulated and nonregulated activities.”¹² AT&T confuses issues here. Billing and collection is not subject to the Joint Cost Order because it has not been treated as nonregulated. The Commission has only detariffed billing and collection.¹³

¹² AT&T at p. 5.

¹³ Detariffing of Billing and Collection Services, 102 FCC 2d 1150 (1986), recon. denied, 1 FCC Rcd 445 (1986).

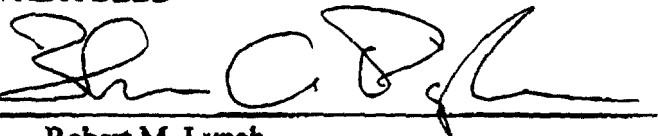
II. CONCLUSION

For the foregoing reasons, the SBC Companies respectfully request that the Commission reconsider and reverse that portion of its Third Report and Order which reallocated GSF costs of price cap LECs from regulated access services to detariffed billing and collection services.

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Certificate of Service

I, Mary Ann Morris, hereby certify that the foregoing , "Reply Comments of the SBC Companies" has been filed this 11th day of March, 1998 to the Parties of Record.

A handwritten signature in cursive script, reading "Mary Ann Morris", is written over a horizontal line.

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